

CHILE

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1. Chile historically has been one of the most stable, democratic countries in Latin America. The election in 1964 of Christian Democrat Eduardo Frei as President added a new dimension to Chilean history by bringing into power a dynamic, reform-minded administration claiming to be an effective alternative to communism. Frei has been stymied, however, by an opposition-controlled Senate and by problems within his own party.

2. Frei's Christian Democratic Party (PDC) won 82 of the 147 seats in the Chamber of Deputies in the 1965 congressional elections, but holds only 13 of 45 seats in the Senate. The next congressional elections are not due until 1969, so Frei will have to work with the present make-up of Congress almost until the end of his term of office. An important, continuing problem for the Frei administration is control of leftist elements, both inside and outside the PDC, who advocate more extreme reforms. A left-wing "rebel" group now in control of the PDC, is composed primarily of younger members lacking experience with the responsibilities of government. It has consistently accused Frei of compromising revolutionary principles and of moving too slowly in implementing his reforms. The present PDC president advocates PDC cooperation with the Communists and the front-runner for the PDC presidential nomination hopes to get PCCh support for his candidacy.

3. The Frei government policies reflect Christian Democratic philosophy. Although definitely Western in orientation, the PDC minimizes international Communist threats and places confidence in its ability to defeat the Communists by coping with the "just grievances" of the masses. The party historically, however, has been critical of traditional capitalism and rejects it as a solution for Chile's economic

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problems. Although the PDC administration has not favored nationalization as the primary solution, it asserts that the state has the main responsibility for development and welfare, while encouraging efficient private enterprises and foreign investment.

4. Communist influence in the government presently is limited. The Communist-Socialist Popular Action Front (FRAP), however, increased its percent of the popular vote in the latest presidential, congressional, and municipal elections but it remains below the percentages received in the 1950s.

5. The opposition in the Senate has since December 1966 been dominated by an informal coalition between FRAP and the opportunistic Radical Party (PR). This group in December 1966 managed to oust the PDC Senate leadership and elect pro-Castro Socialist Senator Salvador Allende as Senate president. The following month, this time joined by the conservative National Party, they refused Frei the constitutionally required permission to visit the United States. The left-wing faction within the PR, pointing to recent electoral gains, is likely to continue this policy of collaboration. There is some evidence that the conservative sectors will group around former president Alessandri or IDB president Felipe Herrera for the 1970 election.

Economic

6. The Chilean economy has been plagued by inflation for more than 50 years, and one of the most important parts of Frei's program involves price stability. During 1967 the total increase in the consumer price index was 22 percent. During the first 8 months of 1968, prices rose about 24 percent. The government's price index includes items not always available at controlled prices, however, and does not necessarily reflect the full impact of all price rises on the consumer.

7. More favorable prices in international copper markets during 1966 increased the government's revenue and improved Chile's balance of payments position. In December 1966 Frei announced that his government would

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be able to dispense with budget support loans from the United States, at least for a time. In recent months, however, decreases in the price of copper have forced a cutback in some government programs, and Chile is beginning discussion of another program loan from the US as a precaution against the continued low price of copper.

8. Agrarian reform is a major part of Frei's program, and a great deal of the government's effort has gone into implementing it. The necessary legislation was signed on 16 July 1967, but the government had proceeded earlier under existing authority to redistribute some land. Other important objectives are tax reform and housing. Progress has been made in improving the educational system. A serious drought has severely damaged Chilean agriculture. As a result, imports of agricultural products will have to increase.

9. The PDC policy of relations with all nations and pursuit of economic self-interest has led the Frei government to seek trade with Communist countries. A trade agreement was signed with the Soviet Union in January 1967 providing for \$57 million of trade and technical assistance credits, but it has not yet been implemented.

International Relations

10. The keystone of Chilean foreign policy for years has been close relations with the US. The PDC, however, is extremely nationalistic and has stressed an "independent foreign policy," related to the long established Chilean tradition of maintaining an "independent" posture for domestic purposes and as a means of rapport with the less-developed "third world" countries between capitalism and Communism. During the past year, Frei has moved to strengthen his relationship with the US, and it was in line with this policy that he had scheduled the US trip that the Senate vetoed.

11. Chile often has had strained relations with its neighbors. Recurrent border incidents along the long, partially demarcated border with Argentina has

provided the cause of many quarrels. Frei has friendly relations with the present Onganía government, however, and has also developed close relations with the Belaunde government of Peru. Diplomatic relations between Chile and Bolivia have been suspended since 1962 when Bolivia protested Chilean diversion of water from the international Lauca River. Chile's 19th century annexation of the Bolivian littoral after the War of the Pacific left a bitter heritage in Bolivia. The Bolivian Government raises periodically the issue of its landlocked position, despite Chilean port and railroad concessions. Bolivian president Barrientos used this issue to justify his refusal to attend the inter-American summit meeting in April 1967.

12. Chile is an active member of the OAS, UN, and various other international organizations. Frei has been a strong advocate of inter-American cooperation and of subregional integration. His performance at the Punta del Este summit meeting demonstrated that he remains a popular figure in hemisphere affairs. His shaky political base has, however, made him somewhat less influential in inter-American councils.

13. The Soviet presence in Chile has increased since the re-establishment of diplomatic relations in November 1964. Scientific and cultural contacts have grown, as well as prospects for trade. Soviet Embassy personnel are extremely circumspect in their contacts with Chilean Communists, and Soviet policy in general supports the Frei government. Chile also maintains diplomatic relations with Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and Yugoslavia. Although trade with Communist China has increased, diplomatic recognition does not seem to be imminent.

Subversion

14. There is no significant danger of insurgency in the country. the Communist Party (PCCh), after a decade of proscription, was legalized in 1958. Since then it has adhered to the policy of "via pacifica" or peaceful road to power. Certain splinter extremist groups favor violence, however, and the Socialist Party has shown signs of moving toward a more extreme position. In any case, the police and army are capable of handling any probable insurgent situation.

15. The PCCh, one of the largest Communist parties in the hemisphere, has an estimated membership of about 30,000 with 100,000 sympathizers. The Frei government is rather complacent toward the PCCh which, by acceptable political behavior, has attained an image of respectability. PCCh voting strength in the 2 April 1967 municipal elections stood at 14.6 percent, and the party now controls 18 seats in the Chamber of Deputies and 5 in the Senate (about 12 percent and 11 percent, respectively).

16. A few Socialists reportedly have had training in Cuba for clandestine operations. The PCCh is not known to have sent trainees; it has instead developed its own action squads to protect meetings and to carry out other tasks. The Communist embassies in Santiago may be providing some indirect support for the PCCh, but there is no positive evidence. There has been an increase in terrorist bombings in recent months. These probably are the work of extremist splinter groups.

17. The army and carabineros (national police) are respected professional forces. As a whole, Chilean security forces are among the best in Latin America

There is no indication at present that the military is interested in assuming power even in the event of a Marxist victory in 1970.